

PHYLOGICA LIMITED

ACN 098 391 961

OFFER DOCUMENT

For a pro rata non-renounceable entitlement issue to Eligible Shareholders on the basis of two (2) New Shares for every three (3) Shares held by Shareholders on the Record Date at an issue price of \$0.015 per Share to raise \$6,012,416 (**Offer**).

The Entitlement Issue is fully underwritten. Refer to Section 1.9 for further details in relation to the underwriting arrangements in place for the Offer.

IMPORTANT NOTICE

This document is not a prospectus. It does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered by this document.

The New Shares offered by this document should be considered speculative.

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its content or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser without delay.

This Offer opens on 12 December 2013 and closes at 5:00pm WST on 30 December 2013.

Valid acceptances must be received before that time.

Please read the instructions in this document and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement.

This document may not be released or distributed in the United States or other countries except as permitted by the terms of this Offer Document.

IMPORTANT NOTES

This Offer Document and the enclosed personalised Entitlement and Acceptance Form have been prepared by Phylogica Limited (ACN 098 391 961) (**Phylogica** or the **Company**). This Offer Document is dated 2 December 2013.

No party other than Phylogica has authorised or caused the issue of this Offer Document, or takes any responsibility for, or makes, any statements, admissions, representations or undertakings in this Offer Document.

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

Eligibility

Applications for New Shares by Eligible Shareholders can only be made on an original Entitlement and Acceptance Form, as sent with this Offer Document. The Entitlement and Acceptance Form sets out an Eligible Shareholder's Entitlement to participate in the Offer. The Entitlement and Acceptance Form also contains provision to apply for New Shares in addition to their Entitlement for Eligible Shareholders who wish to do so.

Overseas shareholders

This Offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Offer Document.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of the New Shares these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and New Shares will not be issued to Shareholders with a registered address which is outside Australia or New Zealand.

Foreign jurisdictions

The New Shares may not be offered or sold in any jurisdiction outside Australia except to persons to whom such offer or sale is permitted under applicable law, as set forth below. Any failure to comply with restrictions could constitute a violation of applicable securities laws.

New Zealand

The New Shares are not being offered or sold to the public within New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer of New Shares is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

In accordance with the Securities Act (Overseas Companies) Exemption Notice 2002 (NZ), a person who, on the Record Date was registered as a holder of Shares with a New Zealand address but who, as at the time of this Offer no longer holds Shares is not eligible to participate in this Offer.

Privacy Act

If you complete an application for New Shares, you will be providing personal information to the Company (directly or by the Company's Share Registry). The Company collects, holds and uses that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your Shares in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or the Share Registry if you wish to do so at the relevant contact numbers set out in this Offer Document.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

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1. DETAILS OF THE OFFER

1.1 The Offer

The Company intends to raise up to \$6,012,416 via a non-renounceable pro-rata entitlement issue, on the basis of two (2) New Shares for every three (3) Shares held as at 5:00pm (WST) on 11 December 2013 (**Record Date**) to Eligible Shareholders with a registered address in Australia or New Zealand (**Entitlement Issue**).

Shares under the Entitlement Issue will be offered at \$0.015 per New Share. Based on the current capital structure (and assuming no Options to acquire Shares are exercised prior to the Record Date) a total of an additional 400,827,747 New Shares will be issued, subject to the effects of rounding.

Where the determination of the Entitlement of any Eligible Shareholder results in a fraction of a New Share, such fraction will be rounded up to the nearest whole New Share.

1.2 Shortfall Offer

Shareholders who subscribe for their Entitlement in full may also apply for additional New Shares over and above their Entitlement out of any shortfall of New Shares available under the Entitlement Issue (**Shortfall Offer**).

An application under the Shortfall Offer must be made on the Entitlement and Acceptance Form in conjunction with acceptance of the Shareholder's Entitlement.

Applications under the Shortfall Offer will be allocated as follows:

- (a) all Shortfall Applications for up to 1,000,000 New Shares (\$15,000) will be allotted in full if shortfall under the Entitlement Issue is available, or scaled pro-rata if applications exceed aggregate shortfall, such scaling to be the ratio of the Shareholder's Shortfall Application to the aggregate of Shortfall Applications in this group.
- (b) after allocation of (a), Shortfall Applications between 1,000,000 and 5,000,000 New Shares will be allotted in full subject to shortfall availability, or scaled pro-rata, again on the ratio of the Shareholder's Shortfall Application to the aggregate of Shortfall Applications in this group.
- (c) after allocation of (a) and (b), Shortfall Applications in excess of 5,000,000 New Shares will be allotted subject to shortfall availability, or scaled on the basis of the Applicant's shareholding at the Record Date as a proportion of the total shareholdings in this application group.

1.3 Use of funds

Completion of the Offer will result in an increase in cash in hand of up to \$6,012,416 (before the payment of costs associated with the Offer).

The Company intends to apply the funds raised from the Offer as set out in the following table.

Activity	Allocated Funds
Scientist salaries and laboratory costs (net of R&D tax rebate of \$1.8 million)	\$2,300,000
Administration and corporate costs	\$600,000
Business development and intellectual property maintenance	\$900,000
General working capital	\$1,862,416
Costs of the Offer	\$350,000
Total	\$6,012,416

The Company anticipates that the funds raised by the Entitlement Issue will be sufficient to fund the Company's operations over the next 2 years, on the basis that expenditure and the research and development tax rebate is maintained at or about current levels (which is expected to be the case).

The above table is a statement of current intentions as of this Offer Document. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.

1.4 Indicative timetable

Event	Date
Release of Offer Document, Cleansing Notice and Appendix 3B to ASX	2 December 2013
Notice sent to Shareholders and Option holders	4 December 2013
Ex Date (date from which Shares commence trading without the Entitlement to participate in the Entitlement Issue)	5 December 2013
Record Date 5pm (WST) (date for determining Entitlements of Eligible Shareholders to participate in the Entitlement Issue)	11 December 2013
Offer Document Dispatched to Shareholders (latest date of dispatch of Offer Document, Entitlement and Acceptance Forms)	12 December 2013
Offer Opening Date	12 December 2013
Offer Closing Date* 5pm (WST)	30 December 2013
ASX notified of under subscriptions	3 January 2014
Dispatch holding statements	8 January 2014

* Subject to the ASX Listing Rules, the Directors reserve the right to extend the Closing Date for the Offer at their discretion. Should this occur, the extension will have a consequential effect on the anticipated date of issue for the New Shares and later timetable events.

1.5 Capital structure

	Ordinary Shares	Options PYCOA	Options Unlisted
On issue as at the date of this Offer Document	580,732,498	150,984,532	8,125,000
Conversion of Notes	20,509,122	13,672,478	-
To be issued under the Offer ⁽¹⁾	400,827,747	-	-
Total after the Offer	1,002,069,367	164,657,280⁽²⁾	8,125,000⁽³⁾

Notes:

1. The number of Shares to be issued under the Offer assumes that no Options are exercised before the Record Date.
2. Listed options exercisable at \$0.09 on or before 30 June 2016.
3. Unlisted options exercisable at \$0.035 on or before 15 August 2015.

1.6 Entitlements and acceptance

The Entitlement of Eligible Shareholders to participate in the Offer will be determined on the Record Date. Your Entitlement is shown on the Entitlement and Acceptance form accompanying this Offer Document.

1.7 No Rights trading

The rights to New Shares under the Offer are non-renounceable. Accordingly, there will be no trading of rights on the ASX and you may not dispose of your rights to subscribe for New Shares under the Offer to any other party. If you do not take up your Entitlement to New Shares under the Offer by the Closing Date, the Offer to you will lapse.

1.8 Overseas Shareholders

No Offer will be made to Eligible Shareholders resident outside Australia or New Zealand.

Phylogica will appoint a nominee for Ineligible Shareholders. Phylogica will issue the nominee with rights to subscribe for the New Shares that would have been offered to the Ineligible Shareholders if they had been eligible to participate in the Entitlement Offer. The nominee will offer those rights for sale and will work with Phylogica to distribute any proceeds of sale net of expenses to the Ineligible Shareholders. It is considered unlikely that there will be any proceeds for distribution.

This Offer Document and accompanying Entitlement and Acceptance Form do not, nor are they intended to, constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

1.9 Underwriting and “best endeavours” placement commitment

The Offer is fully underwritten by Bernard and Dianne Hockings as trustees of the B Hockings Superannuation Fund (**Hockings** or **Underwriter**). The Underwriter is an existing Shareholder of the Company. The Underwriter has entered into an

agreement with Patersons Securities Limited (**Placement Manager**), whereby the Placement Manager will use “best endeavours” to place up to 100,000,000 of the Shortfall Shares.

The underwriting commitments of the Underwriter and “best endeavours” placement commitment of the Placement Manager are summarised in the table below:

Placement Manager/Underwriter*	Shares to be placed/Underwritten Shares	Placement Amount/Underwritten Amount
Placement Manager maximum commitment	100,000,000	\$1,500,000
Hockings balance of underwriting commitment	300,827,747	\$4,512,416
Total Underwriting Commitment	400,827,747	\$6,012,416

* The Underwriter to the Offer is a current Shareholder. Following the issue of the Underwritten Shares, the Underwriter may hold more than 20% of the issued capital of the Company. Details of the Underwriter’s holdings of Shares and voting power under different levels of take up under the Entitlement Issue are set out in the table in section 1.10 below.

The Company has entered into an underwriting agreement with the Underwriter (**Underwriting Agreement**), pursuant to which, there will be a fee paid to the Underwriter equal to five per cent (5%) of the amount underwritten. The Underwriter will pay any Sub-underwriter fee from this amount.

The Underwriting Agreement provides that:

- (a) the Underwriter will only have to subscribe for or place any Shortfall after the applications in respect of the Shortfall Offer have been met in accordance with the terms of the Shortfall Offer; and
- (b) the Underwriter’s commitment to subscribe for New Shares is capped at any Shortfall after the applications in respect of the Shortfall Offer have been met.

The Underwriter is entitled to terminate the Underwriting Agreement upon the occurrence of any one or more of the termination events (**Termination Event**) including:

- (a) **adverse change:** in the Underwriter's opinion (acting reasonably) there is a material adverse change or any developments involving a prospective material adverse change which materially adversely impacts or is likely to materially adversely impact the assets, earnings, results of operations, management or prospects of the Group (including but not limited to the Company becoming Insolvent).
- (b) **alteration of capital structure or constitution:** the Company alters its capital structure (excluding the issue of Offer Securities under the Offer or placement of the Shortfall Shares with, or as directed by, the Underwriter) or its Constitution without the prior written consent of the Underwriter.
- (c) **change in laws: any of the following occurs:**

- (i) the introduction of legislation into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia; or
- (ii) the public announcement of prospective legislation or policy by the Federal Government, or the Government of any State or Territory; or
- (iii) the adoption by the ASIC, its delegates, the Reserve Bank of Australia or any other regulatory authority of any regulations or policy,

which does or is likely to prohibit, restrict or regulate the principal business of the Company or the Offer.

- (d) **default:** the Company is in default of any of the terms and conditions of the Underwriting Agreement or breaches any warranty or covenant given or made by it under the Underwriting Agreement.
- (e) **warranty:** any representation or warranty by the Company in the Underwriting Agreement is or becomes incorrect.
- (f) **failure to comply:** the Company or any related corporation fails to comply with any of the following:
 - (i) a provision of its constitution;
 - (ii) any statute;
 - (iii) a requirement, order or request, made by or on behalf of the ASIC or any Governmental Agency; or
 - (iv) any material agreement entered into by it.
 - (v) indictable offence: a director of the Company or any related corporation is charged with an indictable offence.
- (g) **investigation:** any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a related corporation.
- (h) **Prescribed Occurrence:** a prescribed occurrence occurs, as defined in the schedule to the Underwriting Agreement.
- (i) **Offer Documents:**
 - (i) any adverse new circumstance arises or becomes known which, if known at the time of issue of any of the Offer Documents, would have been included in the Offer Documents;
 - (ii) any statement in an Offer Document is or becomes false, misleading or deceptive or likely to mislead or deceive;
 - (iii) any Offer Document does not contain all information required to comply with all applicable laws;
 - (iv) the Offer Cleansing Notice is or becomes Defective;

- (v) any amendment or update to the Offer Cleansing Notice is issued or is required under the Corporations Act to be issued; or
- (vi) the Company:
 - a. issues an Offer Document without the prior approval of the Underwriter (such approval not to be unreasonably withheld); or
 - b. varies an existing Offer Document in any material way without the prior approval of the Underwriter (such approval not to be unreasonably withheld).
- (j) **Listing:** the Company ceases to be admitted to the official list of ASX or trading in its Shares is suspended, or its Shares cease to be quoted on ASX.
- (k) **Corporate transaction:** any third party publicly announces a transaction proposal that involves, or would involve:
 - (i) a takeover offer (pursuant to Chapter 6 of the Corporations Act) being made for some or all of the Shares;
 - (ii) the Company proposing a scheme of arrangement or some other transaction to the holders of Shares pursuant to which, on completion of that scheme of arrangement or other transaction, a third party would have a beneficial interest in at least 50% of the Shares; or
 - (iii) any other transaction that would result in the disposal by the Company of all or substantially all of the assets or business of the Company and each of its subsidiaries;

1.10 Underwriter - effect on Voting Power in the Company

As set out in section 1.9 above, subject to the Shortfall Offer, the Underwriter has agreed to fully underwrite the Offer.

The potential effect that the issue of New Shares under the Offer will have on the control of the Company is as follows:

- (a) if all Shareholders take up all of their Entitlements under the Offer, the percentage interest in the Shares of the Company held by the Underwriter (and any other major Shareholders) would not change, and there would not be any effect on the voting power of the Underwriter; and
- (b) if some or all of the Shareholders do not take up their Entitlement under the Offer, and there is a Shortfall, then the Underwriter will be required to subscribe for the Shares which make up the Shortfall.

To comply with the requirement to fully disclose the Underwriter's potential voting power in the Company and the effect of underwriting the Offer, the table below sets out various scenarios to indicate the effect on the Underwriter's shareholding and voting power depending on the level of Shortfall (if any).

The table below shows the effect of the Offer on the Underwriter's shareholding and voting power in the Company on the assumption that the Underwriter takes

up its full Entitlement under the Offer and that where the size of the Shortfall is above \$1.5million, the Placement Manager places the first \$1.5million of Shortfall. However, as the Placement Manager's commitment is only a "best endeavours" obligation to place up to \$1.5million of Shares, in the event that the Placement Manager did not place any Shares and no other Shareholders took up any Entitlements, the Underwriter's shareholding and voting power in the Company would be 516,967,747 Shares and voting power of 51.59%.

Event	Number of Shares held by the Underwriter and its associates	Voting power of the Underwriter and its associates
<i>Anticipated holding at the Record Date:</i> B Hockings Superannuation Fund	116,140,000	19.32%
<i>Holding after exercising Entitlements:</i> B Hockings Superannuation Fund	193,566,667	
<i>After issue of Shares to the Underwriter assuming 80% Shortfall (Only the Underwriter takes up Entitlements):</i> B Hockings Superannuation Fund	416,628,333	41.58%
<i>After issue of Shares to the Underwriter assuming 40% Shortfall (Underwriter takes up Entitlement and 40% of other Offers taken up as Entitlement or under the Shortfall Offer):</i> B Hockings Superannuation Fund	255,097,500	25.46%
<i>After issue of Shares to the Underwriter assuming 20% Shortfall (Underwriter takes up Entitlement and 60% of other Offers taken up as Entitlement or under the Shortfall Offer) :</i> B Hockings Superannuation Fund	193,566,667	19.32%
<i>After issue of Shares to the Underwriter assuming 0% Shortfall:</i> B Hockings Superannuation Fund	193,566,667	19.32%

The number of Shares held by the Underwriter and their voting power in the table above shows the potential effect of the Underwriting of the Offer on control of the Company. The Company is of the view that it is unlikely that Shareholders will take up less than 50% of the Entitlements under the Offer (including those taken up by the Underwriter). The underwriting obligation of the Underwriter, and therefore voting power of the Underwriter, will reduce by a corresponding amount for the amount of Entitlements under the Offer taken up by other Shareholders. In addition, the other Shareholders' shareholding in the Company will change depending on the take up of Entitlements and Shortfall Applications by other Shareholders.

1.11 Directors interests and participation

Each Director's interest in the securities of the Company at the date of this Offer Document and their Entitlement is set out in the table below.

Director	Shares	Options	Entitlement to New Shares
Dr Richard Hopkins	10,462,057	504,262	6,974,705
Dr Doug Wilson	1,127,193	584,795	751,462
Mr Jeremy Curnock Cook	-	-	-
Mr Bruce McHarrie	2,304,576	-	1,536,384

The three Directors who hold Shares have indicated that each of them will take up their respective Entitlements as follows:

- (a) Dr Hopkins intends to accept for 4,000,000 New Shares under his Entitlement;
- (b) Dr Wilson intends to accept for all of his Entitlement;
- (c) Mr McHarrie intends to accept for 1,000,000 New Shares under his Entitlement.

1.12 Effect on interests of Eligible Shareholders

The potential effect the issue of New Shares under the Offer will have on the interests of Eligible Shareholders in the Company is as follows:

- (a) if all Eligible Shareholders take up their Entitlement, each Eligible Shareholder's percentage interest in the total issued shares of the Company will remain the same and will not be diluted; and
- (b) if some but not all Eligible Shareholders take up their Entitlement, and the Shortfall is taken up, the percentage interest in the total issued Shares of each Eligible Shareholder who does not take up their Entitlement will be diluted and the percentage interest of the total issued Shares of each Eligible Shareholder who does take up their Entitlement in full will remain the same. The precise level of change in the percentage interests will depend on the take up of Entitlements.

In addition, Shareholders should note that if they do not participate in the Offer, their holdings are likely to be diluted by approximately 40% (as compared to their percentage holding of Shares on issue as at the date of the Offer Document). Examples of how the dilution may impact Shareholders are set out in the table below:

Holder	Holding as at Record date	% at Record Date	Entitlements under the Offer	Holding if Entitlement not taken Up	% post Offer
Shareholder 1	50,000	0.008%	33,333	50,000	0.005%
Shareholder 2	100,000	0.017%	66,667	100,000	0.010%
Shareholder 3	250,000	0.042%	166,667	250,000	0.025%
Shareholder 4	500,000	0.083%	333,333	500,000	0.050%
Shareholder 5	1,000,000	0.166%	666,667	1,000,000	0.100%

Notes:

This table assumes a share capital of 1,002,069,367 Shares (being the number of Shares proposed to be on issue after the Offer).

1.13 Market price of Shares

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of release of this Offer Document and the respective dates of those sales were:

Highest: \$0.024 on 31 October 2013.

Lowest: \$0.013 on 2, 3 and 5 September 2013.

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Offer Document was \$0.019 on 29 November 2013.

1.14 Opening and Closing Dates

The Offer opens on the Opening Date, being 12 December 2013, and closes on the Closing Date, being 30 December 2013. The Company will accept Entitlement and Acceptance Forms until the Closing Date or such other date as the Directors in their absolute discretion shall determine, subject to the Listing Rules.

1.15 Issue and despatch

The expected dates for issue of New Shares offered by this Offer Document and despatch of holding statements is expected to occur on the dates specified in the Timetable set out in Section 1.4.

It is the responsibility of Applicants to determine their allocation prior to trading in the New Shares. Applicants who sell New Shares before they receive their holding statements will do so at their own risk.

1.16 ASX listing

Application for official quotation by ASX of the New Shares offered pursuant to this Offer Document will be made. The fact that ASX may grant official quotation to the New Shares is not to be taken in any way as an indication of the merits of the Company or the New Shares now offered for subscription.

1.17 CHESS

The Company is a participant in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of Shares can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of New Shares allotted to them under this Offer Document. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

1.18 Taxation implications

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares under this Offer Document. The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders.

Shareholders should consult their professional tax adviser in connection with subscribing for New Shares under this Offer Document.

1.19 Risk factors

An investment in New Shares should be regarded as speculative. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company which are described in Section 3.

1.20 Enquiries concerning Entitlement and Acceptance Form and Offer Document

Enquiries concerning the Entitlement and Acceptance Form can be obtained by contacting Security Transfer Registrars Pty Ltd by telephone on +61 8 9315 2333.

Enquiries relating to this Offer Document should be directed to the Company Secretary, by telephone on +61 8 9286 1219.

2. ACTION REQUIRED BY SHAREHOLDERS

2.1 How to accept the Offer

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Offer Document. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:

- (a) if you wish to accept your Entitlement in full:
 - (i) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided; and
 - (ii) attach your cheque for the amount indicated on the Entitlement and Acceptance Form or pay via BPAY® by following the instructions set out in the Entitlement and Acceptance Form; or
- (b) if you only wish to accept part of your Entitlement:
 - (i) fill in the number of Shares you wish to accept in the space provided on the Entitlement and Acceptance Form; and
 - (ii) attach your cheque for the appropriate application monies (at \$0.015 per New Share) or pay via BPAY® by following the instructions set out in the Entitlement and Acceptance Form; or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

Shareholders are also eligible to participate in the Shortfall Offer. You should read section 2.2 below on how to apply pursuant to the Shortfall Offer.

You must make payment for the appropriate Application Monies (at \$0.015 per New Share subscribed) as provided in Sections 2.2 or 2.4 below.

The Company reserves the right to reject any Entitlement and Acceptance Form which is not correctly completed or any payment which is submitted by a person whom they believe may be an ineligible Applicant, or to waive or correct any errors made by an Applicant in completing an Entitlement and Acceptance Form.

2.2 How to apply pursuant to the Shortfall Offer

Shareholders may, in addition to their Entitlement, apply for additional New Shares pursuant to the Shortfall Offer. If you have subscribed for your Entitlement in full and wish to apply for additional New Shares pursuant to the Shortfall Offer, please complete the accompanying Entitlement and Acceptance Form by specifying the number of additional New Shares for which you wish to apply.

If the aggregate number of Shortfall Shares is insufficient to meet all of the Shortfall Applications, New Shares will be allotted as follows:

- (a) all Shortfall Applications for up to 1,000,000 New Shares (\$15,000) will be allotted in full if Shortfall is available, or scaled pro-rata if applications

exceed aggregate shortfall, such scaling to be the ratio of Shareholder Shortfall application to the aggregate of Shortfall Applications in this group.

- (b) after allocation of (a), Shortfall Applications between 1,000,000 and 5,000,000 New Shares will be allotted in full subject to Shortfall availability, or scaled pro-rata, again on the ratio of Shareholder Shortfall application to the aggregate of Shortfall Applications in this group.
- (c) after allocation of (a) and (b), Shortfall Applications in excess of 5,000,000 New Shares will be allotted subject to Shortfall availability, or scaled on the basis of the applicant's Shareholding at the Record Date as a proportion of the total Shareholdings in this application group.

If you do not receive all of the additional New Shares you applied for pursuant to the Shortfall Offer, any excess application monies will be returned to you (without interest).

Directors will not be able to apply for additional New Shares pursuant to the Shortfall Offer.

2.3 Payment by cheque

Please complete the Entitlement and Acceptance Form according to the instructions on the form for all, or that part, of your Entitlement for which you wish to subscribe and also in respect of any Shortfall Application you wish to make. Entitlement and Acceptance Forms must be accompanied by payment in full of \$0.015 per New Share and Shortfall Share subscribed for.

Payments must be made by 5:00pm (WST) on 18 December 2013 and must be in Australian currency and by a cheque or bank draft drawn on and payable at any Australian bank.

Cheques should be made payable to "Phylogica Limited" and crossed "Not Negotiable". All amounts must be in cleared funds. Cash payments will not be accepted and receipts for payments will not be provided.

Completed Entitlement and Acceptance Forms with accompanying cheque or bank draft payment must be mailed to the following address:

By Post:

Security Transfer Registrars Pty Ltd
PO Box 535
Applecross WA 6953

By delivery:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Applicants are not required to sign the Entitlement and Acceptance Form. Entitlement and Acceptance Forms and Application Monies must be received by the Registry no later than **5:00pm (WST) on the Closing Date**.

2.4 Payment by BPAY®

If you are paying for your New Shares or Shortfall Shares by BPAY®, you should refer to your personalised instructions on your Entitlement and Acceptance Form. You **DO NOT** need to complete or return the Entitlement and Acceptance Form but are taken to have made the declarations on that Entitlement and Acceptance Form and the representations outlined below in Section 2.5.

Make sure you use the specific Biller Code and unique Customer Reference Number (**CRN**) on your personalised Entitlement and Acceptance Form.

If you have more than one shareholding of Shares and consequently receive more than one Entitlement and Acceptance Form, when taking up your Entitlement in respect of one of those shareholdings only use the CRN specific to that Shareholding as set out in the applicable Entitlement and Acceptance Form. **DO NOT** use the same CRN for more than one of your shareholdings. This can result in your Application Monies being applied to your Entitlement in respect of only one of your shareholdings (with the result that any Application in respect of your remaining shareholdings will not be recognised as valid).

You should be aware that your own financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment. Please note that the maximum payment that can be received by BPAY® is \$1 million. It is your responsibility to ensure that funds submitted through BPAY® are received by **5:00pm (WST) on the Closing Date**.

2.5 Implications of making an Application

Returning a completed Entitlement and Acceptance Form or paying any Application Monies for New Shares or Shortfall Shares via BPAY® will be taken to constitute a representation by you that:

- (a) you have received a copy of this Offer Document and the accompanying Entitlement and Acceptance Form and read them both in their entirety;
- (b) you acknowledge that once the Entitlement and Acceptance Form is returned, or a BPAY® payment instruction is given in relation to any Application Monies, the Application may not be varied or withdrawn except as required by law.

2.6 Entitlements not taken up

If you do not wish to accept your Entitlement or any part of your Entitlement (or you are precluded from doing so due to the jurisdiction of your registered address), you do not need to take any action. The number of Shares you hold and the rights attaching to those Shares will remain unchanged and the New Shares representing your Entitlement will be available for the Shortfall Offer.

2.7 Shortfall

If you do not wish to take up any part of your Entitlement you are not required to take any action. That part of your Entitlement not taken up will be available for the Shortfall Offer and then, if applicable, to the Underwriter.

The Shortfall Offer is a separate offer (to your Entitlement) pursuant to this Offer Document. The issue price of any New Shares offered pursuant to the Shortfall Offer shall be \$0.015, being the price at which the Entitlement has been offered to Shareholders pursuant to this Offer Document.

3. RISK FACTORS

3.1 Introduction

The Shares offered under this Offer Document should be considered speculative because of the nature of the Company's business.

There are numerous risk factors involved with the Company's business. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. Accordingly, an investment in the Company carries no guarantee with respect to the payment of dividends, return of capital or price at which securities will trade.

The following is a summary of the more material risks to be considered, which may affect the Company's financial position, prospects and the price of its listed securities. However, this summary is not exhaustive and potential investors should examine the contents of this Offer Document in its entirety and consult their professional advisors before deciding whether to apply for the New Shares.

3.2 Specific Risks relating to the Company

(a) Technology risks

For the Company to be competitive in the peptide drug discovery market, the Directors expect it will need to continue to develop or acquire new technologies and platforms, develop niche markets and to take early advantage of technological advancements.

While the Directors regard the Company's Phylomer Libraries as being at the forefront of peptide drug discovery, competition and new technologies have the potential to negatively impact market share, product prices, profit margins, and the financial value of products. Further, it may render the Company's research projects and the high costs associated with such research and development obsolete. Outcomes of research and development work will affect the future performance of the Company and its Shares.

(b) Discovery alliance risk

The Company aims to build a sustainable business through drug discovery alliances. This requires a flow of new contracts and/or extensions of existing agreements to grow revenue. While great care will be taken in the alliances that Phylogica commits to, there is a risk that partner selections and performance may not be adequate, resulting in lost time, money and opportunity. Similarly, the Company may not be able to secure new contracts at the rate required or with sufficient near-term contract revenue to meet its revenue goals.

(c) Phylomer therapeutic risks

Drug development is a long and highly regulated process with many identified potential risks. Therapeutics derived from Phylomers are subject to some of these potential risks as described below. While Phylogica is not currently directly engaged in drug development, these risks can indirectly influence the possibility of Phylogica to obtain downstream milestone payments and royalties from peptides it

discovers being taken through clinical development and subsequent marketing.

Difficulty could be encountered with absorption, delivery, metabolism, toxicity, stability, delivery or efficacy in animal or human trials. This could result in early termination of a specific drug candidate program. Formulation difficulties such as poor solubility may also be encountered.

Drugs developed from Phylomers may not be suitable for all individuals such as different genetic backgrounds, patients suffering from particular conditions.

Unforeseen interactions with other pharmaceuticals or substances may be encountered.

Phylomers that appear specific at early stages of drug discovery may nonetheless exhibit unforeseen side effects in animal or human trials resulting in early termination of the specific drug candidate program.

Government regulatory bodies are the final arbiters of approval of drugs for market. Applications for approval may not be granted in all instances in all markets.

(d) **Research and Development Agreement**

Currently all of Phylogica's research and development work is carried out at the Telethon Institute for Child Health Research and is covered by a Research and Development Agreement. In the event that the agreement is terminated, Phylogica's operations could be adversely affected as a consequence of disruption of work and re-locating to new premises.

(e) **Research and Development**

Phylogica can make no representations that any of its research and development will be successful, that the Company's development milestones will be achieved or that the Company will develop products that are commercially exploitable. Prior to commercialisation, projects may be delayed or terminated for a range of unexpected scientific, preclinical, clinical, regulatory or commercial reasons.

Being at the forefront of peptide drug discovery, the Company is entering uncharted territory which may present unforeseen biological complexities. Phylogica may need to develop new technologies to resolve these complexities and to advance its programs.

(f) **Intellectual Property**

Phylogica regards its patents, copyrights, trademarks, trade secrets and similar intellectual property as critical to its success. Phylogica relies on patent, trademark and copyright law, trade secret protection and duties of confidence and licence agreements with third parties to protect its intellectual property rights. Applications for patents and trademarks may not be granted in particular jurisdictions. Moreover the grant of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing intellectual property. While the Company will use all reasonable endeavours to

protect these rights, the steps that the Company takes to protect its intellectual property rights may be inadequate. The unauthorised use or disclosure of its proprietary technology and systems may have adverse effects on the operation and financial performance of Phylogica. The Company may incur substantial costs in obtaining or asserting any patents or intellectual property rights and in defending legal action against itself relating to such rights. It is possible that some patent rights could be revoked following such legal action.

No formal valuation has been completed on the intellectual property of the Company. Phylogica makes no representation as to the value of its intellectual property. It is recommended that impending investors and their advisors should make their own assessment as to the value of the Company's intellectual property.

(g) **Customers**

A significant proportion of Phylogica's potential customers are from, and are subject to risks faced by, the pharmaceutical, biotechnology and life sciences industries. Therefore, Phylogica's success depends largely on the success of companies in these industries and their demand for its products.

(h) **Competition**

The Company will be operating in a competitive and dynamic market, where technological advancements are expected. Although the Board believes that the Company's technology is unique and will be effective in identifying and developing drug candidates, there are competing technologies which will continue to be used and other competitors unknown to the Company may emerge from time to time. The introduction of new competitors or a more successful outcome from existing participants may affect the operating performance of the Company.

(i) **Funding**

Unless or until the Company is able to expand its fee-for-service activities and thus grow revenue, it will not reach its goal of cash sustainability in 2-3 years. Phylogica's long-term value requires its partner's and its in-house drug candidates to be successful in development and to reach the market. Otherwise, it may be dependent upon the funds raised by this Offer, existing collaboration agreements, and its ability to obtain future equity or debt funding to support commercialisation of its technology and in-house research and development. The Company's ability to raise further equity or debt or to divest part of its interest in its technology, and the terms of such transactions, will vary according to a number of factors, including the success of research and development results and the future development of the Company's technology and stock market conditions.

(j) **Key Personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or

more of these employees cease their employment. The Company's future ability to recruit and retain highly qualified management personnel will also be critical to its success.

(k) **Product liability and uninsured risks**

Through its intended business, the Company is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products or products developed with future co-development alliance partners. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavours to work to rigorous standards there is still the potential for the products to contain defects which may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to the Company's reputation or increased insurance costs.

If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Further the Company is exposed to the risk of catastrophic loss to necessary laboratory equipment, computer equipment or other facilities which would have a serious impact on Phylogica. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

3.3 **General Risks**

(a) **Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

(b) **Market Conditions**

Share market conditions may affect the value of the Company's quoted Shares regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and

(vi) terrorism or other hostilities.

The market price of Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

3.4 Investment Speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Offer Document. Therefore, the Shares to be issued pursuant to this Offer Document carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Offer Document.

4. FINANCIAL INFORMATION

4.1 Consolidated statement of financial position

The statement of financial position as at 30 June 2013 (audited) and the pro forma statement of financial position as at 30 June 2013 (unaudited) set out below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. The pro forma statement of financial position has been prepared on the assumption that all Shares pursuant to the Offer are issued.

These statements of financial position have been included to provide Shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

PRO FORMA CONSOLIDATED BALANCE SHEET

<u>AS AT 30 June 2013</u>	Audited 30/06/2013	Adjustments	Pro Forma 30/06/2013
ASSETS			
Current assets			
Cash and cash equivalents	1,806,905	5,662,416	7,518,700
Trade and other receivables	118,698	-	118,698
Total current assets	<u>1,925,603</u>	<u>5,662,416</u>	<u>7,637,398</u>
Non-current assets			
Plant and equipment	<u>336,858</u>	-	<u>336,858</u>
Total non-current assets	<u>336,858</u>	-	<u>336,858</u>
TOTAL ASSETS	<u>2,262,461</u>	<u>5,662,416</u>	<u>7,974,256</u>
LIABILITIES			
Current liabilities			
Trade and other payables	778,434	-	778,434
Employee benefits	<u>270,656</u>	-	<u>270,656</u>
Total current liabilities	<u>1,049,090</u>	-	<u>1,049,090</u>
Non-current Liabilities			
Employee benefits	<u>18,498</u>	-	<u>18,498</u>
Total non-current liabilities	<u>18,498</u>	-	<u>18,498</u>
TOTAL LIABILITIES	<u>1,067,588</u>	-	<u>1,067,588</u>
NET ASSETS	<u>1,194,873</u>	<u>5,662,416</u>	<u>6,906,668</u>
EQUITY			
Contributed equity	34,055,506	5,662,416	40,067,922
Reserves	1,514,209	-	1,514,209
Accumulated losses	<u>(34,374,842)</u>	-	<u>(34,675,463)</u>
TOTAL EQUITY	<u>1,194,873</u>	<u>5,662,416</u>	<u>6,906,668</u>

4.1 Dividend Policy

The Directors are not able to say when and if dividends will be paid in the future, as the payment of any dividends will depend on the future profitability, financial position and cash requirements of the Company.

DEFINED TERMS

\$ or A\$ means an Australian dollar.

Applicant refers to a person who submits an Entitlement and Acceptance Form.

Application refers to the submission of an Entitlement and Acceptance Form.

Application Monies means monies received from Applicants in respect of their Applications.

ASX means ASX Limited (ACN 008 624 691) or, where the context permits, the Australian Securities Exchange operated by ASX Limited.

Closing Date means the closing date set out in Section 1.4 or such other date as may be determined by the Directors.

Company means Phylogica (ACN 098 391 961).

Directors means the directors of the Company.

Eligible Shareholder means a Shareholder whose details appear on the Company's register of Shareholders as at the Record Date whose registered address is in Australia or New Zealand.

Entitlement means the entitlement to subscribe for two (2) New Shares for every three (3) Shares held by an Eligible Shareholder on the Record Date subscribed for and **Entitlements** has a corresponding meaning.

Entitlement and Acceptance Form means the Entitlement and Acceptance Form accompanying this Offer Document.

Entitlement Issue or **Offer** or **Issue** means the pro rata non-renounceable offer of New Shares at an issue price of \$0.015 each on the basis of two (2) New Shares for every three (3) Shares held on the Record Date pursuant to this Offer Document.

Listing Rules means the Listing Rules of the ASX.

New Share means a new Share proposed to be issued pursuant to the Offer or the Shortfall Offer.

Offer Document means this Offer Document dated 25 November 2013.

Opening Date means the opening date set out in Section 1.4.

Option means an option to acquire a Share.

Placement Manager has the meaning given to it in Section 1.9.

Record Date means the record date set out in Section 1.4.

Section means a section of this Offer Document.

Share means an ordinary fully paid share in the capital of the Company.

Shareholder means a holder of Shares.

Share Registry means Security Transfer Registrars Pty Ltd.

Shortfall or **Shortfall Shares** means those New Shares under the Offer not applied for by the Closing Date after having filled applications under the Shortfall Offer.

Shortfall Application means applications for additional New Shares which may be made by Shareholders who subscribe for their Entitlement in full.

Shortfall Offer has the meaning given to it in Section 1.2

Shareholder means a holder of Shares.

Underwriter has the meaning given to it in Section 1.9.

Underwritten Shares means all of the New Shares which may be issued under the Offer.

WST means Australian Western Standard Time as observed in Perth, Western Australia.